

CREDIT OPINION

5 March 2018

Rate this Research



Analyst Contacts

Christopher Yared +1.617.535.7693
 Associate Analyst
 christopher.yared@moody's.com

Thomas Jacobs +1.212.553.0131
 Senior Vice President
 thomas.jacobs@moody's.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Brookline (Town of) MA

Update to credit analysis

Summary

Brookline, MA (Aaa, stable) has a sizeable and affluent tax base which benefits from strong property values and close proximity to New England's largest employment center. The town's stable financial position is bolstered by formal fiscal policies and strong management. Debt outstanding is low but increasing and pension liabilities remain manageable.

Credit strengths

- » Sizeable tax base with very strong resident wealth and incomes
- » Comprehensive fiscal policies and planning
- » Long trend of stable financial operations
- » Taxpayer support for general levy limit overrides and debt exclusions

Credit challenges

- » Increasing capital needs driven by growing school enrollment
- » Limited operating flexibility under Proposition 2½

Rating outlook

The stable outlook reflects the favorably located tax base that will continue to grow. The outlook also incorporates the town's financial position that will remain stable going forward due to careful fiscal management and the expectation that voters will continue to approve proposition 2½ exclusions for growing capital needs.

Factors that could lead to a downgrade

- » Trend of operating deficits that result in a material decline in reserves
- » Material tax base contraction
- » Substantial increase in debt absent corresponding tax base growth
- » Failure to address long-term pension and OPEB liabilities as planned

Key indicators

Exhibit 1

Brookline (Town of) MA	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$16,264,277	\$16,264,277	\$17,051,417	\$17,051,417	\$20,944,753
Full Value Per Capita	\$276,895	\$275,591	\$288,362	\$288,391	\$354,239
Median Family Income (% of US Median)	232.3%	221.4%	207.7%	207.7%	207.7%
Finances					
Operating Revenue (\$000)	\$224,539	\$231,681	\$232,769	\$250,639	\$276,878
Fund Balance (\$000)	\$27,229	\$26,120	\$24,550	\$28,845	\$33,692
Cash Balance (\$000)	\$33,172	\$34,432	\$33,137	\$40,526	\$41,462
Fund Balance as a % of Revenues	12.1%	11.3%	10.5%	11.5%	12.2%
Cash Balance as a % of Revenues	14.8%	14.9%	14.2%	16.2%	15.0%
Debt/Pensions					
Net Direct Debt (\$000)	\$65,078	\$64,493	\$61,105	\$71,248	\$99,188
3-Year Average of Moody's ANPL (\$000)	\$289,830	\$324,714	\$373,012	\$383,535	\$409,408
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.3x	0.3x	0.4x
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.4%	0.4%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.4x	1.6x	1.5x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.8%	2.0%	2.2%	2.2%	2.0%

As of June 30 fiscal year-end

Full value = equalized value

Source: Moody's Investors Service; town's audited financial statements

Profile

Brookline, with an estimated population of 59,132, is a sizeable residential community neighboring the city of Boston (Aaa stable).

Detailed credit considerations

Economy and Tax Base: Large and Affluent Residential Town Adjacent to Boston

Brookline's large \$20.9 billion tax base will remain stable with moderate growth over the medium term, given its favorable location, high value housing stock, and strong resident wealth. Located adjacent to the city of Boston, the town benefits from its proximity to New England's largest economic center, which is directly accessible by public transportation. The town's assessed value has grown for ten consecutive years, with about 43% growth in just the last four years. Additionally, the equalized value increased a significant 22.8% over the 2 years from 2015 to 2017, among the strongest growth rates in the commonwealth. While the tax base is 90% residential, future new growth will continue to come from new commercial development, including hotels and commercial projects in the Brookline Village area. According to the fiscal 2019 budget proposal, the town conservatively estimates new growth revenues of \$2.6 million.

Median home values are four times the national median. Resident incomes are well above national medians with per capita and median family income representing 205% and 208% of the national levels, respectively. The town's unemployment rate of 1.8% (December 2017) remains well below the Massachusetts rate of 3.1% and US rate of 3.9%.

Financial Operations and Reserves: Stability Will Continue Given Formal Policies and Conservative Long Range Planning

The financial position will remain healthy over the near term given the town's history of balanced operations, maintenance of adequate reserve levels, and commitment to addressing capital needs and long-term liabilities. The balanced operations are the result of comprehensive and formalized financial policies as well as conservative long range budget projections for operating and capital needs.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

The fiscal 2017 audited financials reflect a \$4.8 million surplus after transfers of \$9.7 million out of the General Fund to the Capital Article Fund for specific capital projects. The available General Fund balance (assigned and unassigned) increased to \$33.7 million or 11.8% of revenues. This increase was due, in part, to higher than expected building permit revenues. The town has historically maintained General Fund reserves of 10-11% of revenues, which is in line with its reserve policies. Financial reserves will likely remain in this range over the near term. While these levels are narrow compared to the rating category's national median, they are adequate given the strong fiscal management and reliance on property taxes that consistently represent over 70% of revenues. Collection rates remain strong with 99% collected in the year in which they are due.

The fiscal 2018 budget increased 4.2% due to education and employee benefits, the town's two largest expenses. The budget was balanced with a 3.5% tax levy increase and the final portion of the May 2015 general override. Management reports that year-to-date revenues are strong, and most expenditures are stable. Management projects another surplus at year-end.

The balanced preliminary 2019 budget reflects an increase of 4.7% driven by capital projects spending, debt service, salaries and benefits, and education (rising enrollment and special education costs). The budget was balanced with a 5.5% tax levy increase and the assumption that state aid would increase by about 6.3% over fiscal 2018. In May 2018, the town expects to vote on an override proposal, though any override benefit has not been projected in the fiscal 2019 budget.

The long range financial forecast (fiscal 2020-2023) indicates manageable annual budget deficits of \$2.8 million in 2020 up to \$14.0 million in 2023, which represents a structural gap of 2.9% revenue growth with 4.3% expenditure growth. We view the long range gap as evidence of conservative, realistic budgeting and note that the town has historically closed the gaps as the budget year approaches. Maintenance of the town's very stable financial position over the long term will likely require ongoing taxpayer support of general overrides and debt exclusions.

LIQUIDITY

Year-end cash has been very stable for the past several years and in 2017 totaled \$41.5 million, or 14.6% of revenues.

Debt and Pensions: Debt Burden Will Increase; Large but Manageable Pension and OPEB Liabilities

Following the March 2018 debt issuance, net direct debt will equal to 0.8% of equalized value, which remains below the state and US averages. The debt burden will gradually rise over the next five to ten years given the Capital Improvement Plan (CIP) driven by school projects. Importantly, the expected debt burden will remain manageable based on current projections given the town's debt policy which incorporates funding sources and funding levels from debt, pay-go, and reserves. The proposed fiscal 2019-2024 CIP totals \$126.9 million, or an average of approximately \$21.2 million per year. The plan includes the debt exclusion for the Devotion School that was partially financed with March 2018 issuance. The plan also includes an additional school project that the town will take to referendum for debt exclusion in May 2018. Currently, the town has \$62.8 million in authorized unissued debt, of which \$39.3 million is expected to go toward school repairs and improvements.

DEBT STRUCTURE

All debt is fixed rate with 59.6% scheduled to amortize within ten years. Fiscal 2017 debt service represented a low 3.6% of expenditures.

DEBT-RELATED DERIVATIVES

Brookline is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The town maintains and participates in the Brookline Contributory Retirement System, a single-employer defined benefit retirement plan. The town's annual contribution in fiscal 2017 was \$19.7 million or 7% of General Fund expenditures. The town plans to fully fund its pension liability by 2030, well in advance of the state mandate of 2040. The fiscal 2017 three-year average Moody's adjusted net pension liability, based on Moody's methodology for adjusting reported pension data, is \$409 million, or a moderate 1.5 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

The town has begun to more aggressively fund its other post-employment benefits (OPEB) obligation and is working to fully fund its OPEB liability by fiscal 2046. In fiscal 2017, Brookline contributed \$15.3 million toward its OPEB liability, of which \$11.5 million went toward current benefit payments and the remaining \$3.8 million went to the OPEB trust. In fiscal 2018, the town anticipates contributing \$4.5 million toward the OPEB trust. That contribution is expected to increase marginally in fiscal 2019 to \$4.6 million.

Fiscal 2017 total fixed costs including debt service, required pension contributions and retiree healthcare payments, represented \$45.1 million or 16.1% of expenditures.

Management and Governance

Brookline adheres to conservative and comprehensive fiscal policies including multi-year forecasting for operations and capital needs as well as plans to address long-term liabilities.

Massachusetts Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts cities major revenue source, property taxes, are subject to the Proposition 2 1/2 cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. However, Massachusetts has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454